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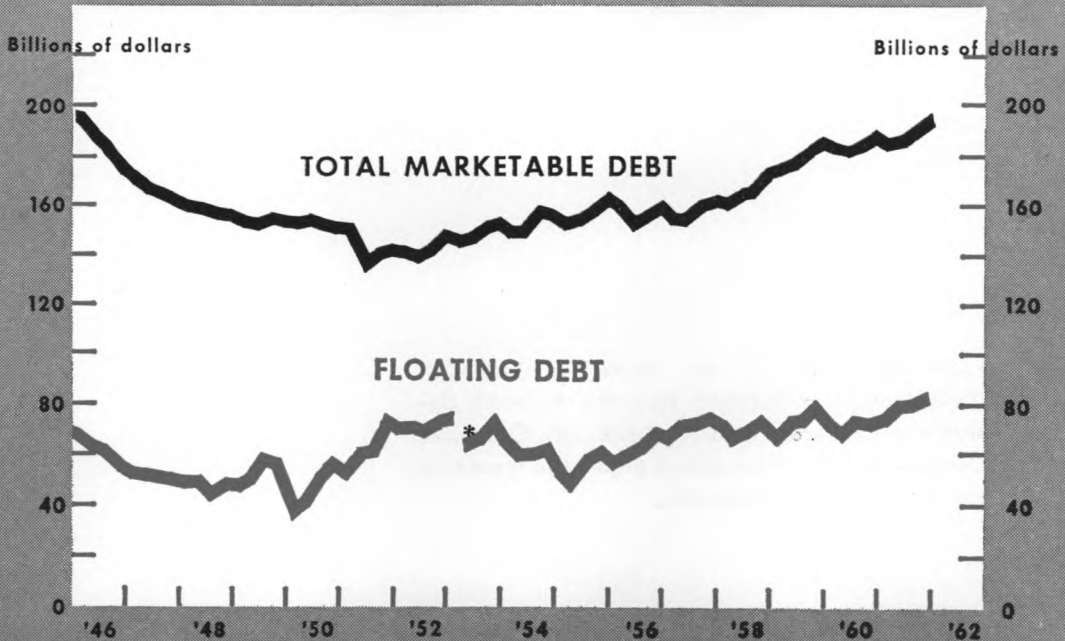
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The floating debt, which includes marketable Government securities maturing within one year, constitutes an important portion of the marketable Federal debt.



* New Series

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Floating Debt —

An Instrument Of Financial Policy

Editor's Note: This article concerns itself with a particular type of debt—the "floating debt". Although a relatively small segment of gross Federal debt, the floating debt performs an important function as an instrument of fiscal and credit policy.

Definition of the Floating Debt

AS USED here, floating debt is actually a shorthand expression which refers to the outstanding volume of marketable U. S. Government securities that mature within one year. Such issues are Treasury bills and certificates of indebtedness, as well as Treasury notes and bonds having only a year remaining until final maturity.⁽¹⁾

The chief characteristic of floating debt is that it is highly liquid, i.e., it is very close to cash. Hence, because of the nearness to maturity of the securities, changes in market yields would result in relatively small price changes. Thus, the holders of the floating debt have less risk of capital loss in the market than do the holders of longer-length securities. The table on the next page illustrates the declining amount of price fluctuation in intermediate and long-term Government debt as maturities shorten.

Size of debt. At the end of 1945 the floating debt had equalled \$70.5 billion, an amount which represented a sharp increase from the pre-war levels of \$5 billion or less. In the way of comparison, at the end of 1961, the outstanding amount of the floating debt reached an all-time high — \$84.4 billion.⁽²⁾

(1) Nonmarketable debt has been excluded here from the definition of floating debt. Although it represents a potential source of liquidity, the issues themselves are not liquid because they are not marketable and because they are usually held as long-term savings.

(2) The gross Federal debt outstanding is of course mainly a product of World War II. Huge sums of money were required by the war, and the Federal debt subsequently climbed rapidly. The floating debt participated in the general rise, partly for the reason that interest rates on short-term Treasury securities were pegged at extremely low levels during the war, thus providing a relatively inexpensive source of Government borrowing.

Since the end of World War II, the size of the floating debt has been influenced primarily by fiscal policy and debt management, which in turn have reflected the general course of economic activity. The postwar period has been characterized by more deficits than surpluses in the Federal budget, with the result that the total Federal debt has increased on balance. Net new debt frequently has been financed in the form of short-term securities. Concurrently, some of the long-term Government securities (bonds) that were issued in World War II have been moving closer to their final maturity and becoming part of the floating debt. Until the last few years, only a relatively small amount of long- and short-term maturing debt was refinanced with longer-term issues. The trend of shortening maturities is reflected quite clearly in the fact that the average maturity of the Federal debt shrank from 107 months at the end of 1945 to 55 months at the end of 1961.⁽³⁾

In recent years, two additional factors may have led to a heavy dependence by the Treasury on short-term issues. Limitations have been set by Congressional action on both the total size of the gross Federal debt and the maximum interest rate that can be carried by Government bonds. Because of the latter limitation, the Treasury, at times, has been unable to compete for long-term investment funds in the market and has had to depend on short-term borrowing instead. The debt-size limit, on occasion, has forced the nation's debt managers to borrow in amounts as small as \$100 million, a quantity that is best satisfied by short-term issues such as the weekly Treasury bills. (Still another factor influencing recent debt management has been the

(3) It should be noted that the average maturity of the debt was also 55 months at the end of 1960. In other words, due to the successful use of the advance refunding technique, there was no net change in the average maturity in 1961.

changing ownership of the Federal debt, which is discussed later.)

Against this background of postwar developments, the floating debt rose to a peak of \$84.4 billion at the end of December 1961. Of this amount, Treasury bills accounted for 52 percent of the total, certificates of indebtedness for 6 percent, and Treasury notes and bonds that were within one year of final maturity for 42 percent. The composition "mix" of the floating debt is not necessarily constant. Usually the mix reflects the Treasury's current vehicle for short-term borrowing. In 1961, for example, an increased reliance was placed by the Treasury on short-term notes at the expense of the outstanding volume of certificates. In contrast, in 1958 certificates made up about half of the floating debt. (See the accompanying chart.)

Ownership of debt. During the time that the Federal debt was increasing by giant steps in World War II, the debt managers tried to tap excess savings as a chief source of the borrowed funds. Thus, individuals and companies bought Government securities in larger amounts than ever before. At the same time, a significant portion of the public debt became lodged in banks and other financial

institutions. Although the war-time pattern of debt ownership proved somewhat temporary, it did serve to acquaint various sectors of the economy with an investment in the form of a top-quality, highly marketable debt instrument that could be converted into cash at any time.⁽⁴⁾ It was soon recognized that short-term Treasury instruments were liquid enough to be considered virtually as cash.

Ownership of the Federal debt has shifted substantially in the postwar period, as some holders such as corporations have needed funds for expansion of plant and equipment, and others saw an advantage in moving into securities paying a higher return. As a case in point, much interest has been shown in moving temporarily-idle funds into liquid securities guaranteeing a short-run return. Short-term Treasury issues have become a likely candidate. The result of the shifting ownership has been that on balance the total demand for long-term Government securities has shown a relative decline, while the demand for short- or intermediate-term issues has increased. Looking at it another way, it is likely that the floating debt has grown partly

(4) This was the consequence of the Treasury-Federal Reserve policy prior to 1951 of "pegging" the interest rates of Government securities at a constant level.

Maximum Price Change During Year

Type of Issue*	Issues Due Within:		
	One Year	1-2 Years	2-3 Years
Treasury Bonds			
1961 (through September)	\$.20	\$.41	\$.99
1960	1.52	2.73	4.51
1959 (May through October)	—	1.22	2.03
1958 (through May) .....	.32	.55	2.03
1½% Treasury Notes			
1961 .....	.44	1.32	1.75
1960	1.34	2.87	5.13
1959	1.13	2.94	3.37
1958 .....	.91	2.69	3.94
All Other Treasury Notes			
1961 .....	.35	.89	1.54
1960 .....	.82	2.71	5.02
1959 .....	.57	1.50	2.62
1958 (August through December) .....	.97	.39	.98

* Based on an average price derived from prices of all issues outstanding in each of three maturity groups on the last trading day of each month. Prices used were closing bid quotations in the New York market, as published in the monthly Treasury Bulletin.

as a result of the increased demand for such securities.

The most recent data available (as of the end of December 1961) indicate that the largest proportion of the floating debt, or one-fourth of the total, currently is held by commercial banks. Another large segment (nearly one-fourth) is held by the Federal Reserve banks and Government agencies and trust funds. About 10 percent of the floating debt is owned by nonfinancial corporations, while individuals and state and local governments each hold somewhat smaller shares. The remaining volume of this type of Federal debt is spread among securities dealers and brokers, pension funds, insurance companies, savings and loan associations, non-profit institutions, and foreign accounts.

Functions of the Floating Debt

It is important to remember that the floating debt represents both a liability of the Treasury and a source of borrowed funds for the use of the Federal government. Both the funds and the liability have a short life until maturity and will be either perpetuated by a refinancing, or eliminated by funds becoming available to retire the maturing issues. (From the information on the size of the floating debt, it is obvious that a large amount of debt is constantly being rolled over.) In some instances the Treasury has taken advantage of the short life of floating debt by issuing securities in regular cycles, with maturities scheduled to be of advantage to potential purchasers and to avoid unnecessary market interference by the Treasury. An important example is the tax anticipation bills which are particularly useful for corporations in meeting tax payment obligations.

In this article, however, we are chiefly interested in the floating debt as a mass of liquid assets and as a group of extremely important money market instruments. As suggested earlier, such debt is often acquired as an outlet for temporarily-idle funds—funds which are frequently earmarked for a future expense. Short-term investors choose floating-debt issues because as liquid assets

they (1) are close to cash, (2) represent liquidity in investment portfolios, or (3) are an investment that can be used readily to adjust over-all liquidity positions. In addition, such issues provide an interest return on funds which otherwise would be idle and non-interest earning. Another advantage to holders of floating debt is the fact that the total quantity outstanding does not decline in times of business difficulties, unlike the supply of private debt forms such as the old call loans. In short, emphasis on the efficient use of cash balances and investment reserves has led to a rising demand for liquid assets in the form of the floating debt.

The floating debt is also important as a factor in the money market. It undoubtedly helps to link the various financial markets because it is so widely held by a diverse group of owners. (The wide ownership and the large size of the floating debt help to explain why such debt constitutes more than half of the trading in the Government securities market.) Shifts of funds in and out of these short-term investments in turn may result in changing flows of funds in the medium- and long-term markets. As a result of inter-relationships of this type, the floating debt can be used as a tool to affect demands for credit and interest rate levels. For example, in 1961 the Treasury increased the outstanding volume of Treasury bills in order to hold short-term interest yields at a level that would help discourage short-term capital from leaving the United States.

The outstanding volume of the floating debt (and the changes in that volume) also can be related to changes in general credit demands. It is unlikely that an increase in the supply of floating debt would absorb capital funds on a permanent basis; such funds might be invested temporarily until a more opportune time for spending, but probably not for periods of more than a year. On the contrary, a number of analysts have suggested that increased investment in the floating debt does not absorb any spending power but only shifts it into a near-money substitute, i.e., as a sort of delayed action. However, increased

holdings of floating debt do tend to reduce the demand for money and credit, while in most cases causing the velocity (or use) of the money that remains in circulation to rise. The acquisition of floating debt may have an additional effect that would actually increase spending. This is the so-called wealth effect, which indicates that additions to liquidity tend to be reflected in increased spending by the holders of liquid assets. The wealth effect is pertinent when an increase in holdings of floating debt is made possible through a reduction in holdings of long-term or fixed assets, for example.

With these functions of the floating debt in mind, the purposes for which various groups hold floating debt may become more clear. Nonfinancial corporations use such debt as a highly-liquid but temporary investment for earmarked funds such as income tax payments. Commercial banks invest in floating debt as secondary reserves, the amount of which can be adjusted quickly, easily, and with little risk of capital loss. Most of the miscellaneous owners of floating debt share these or similar investment motives.

The Federal Reserve System, another large holder, buys floating debt issues for another reason, namely, to influence the reserve base of the banking system and thus, bank credit and the money supply. The Federal Reserve System conducts open market operations mainly in short-term Government securities—the floating debt—because such issues are outstanding in large amounts, are widely held, and can be bought and sold in large quantities without undue effect on prices; in addition, the short-term market gradually transmits these operations to other financial markets.

Cyclical Importance of the Floating Debt

An important question that is perennially raised regarding the floating debt is whether or not it is potentially inflationary. Many observers apparently feel that the inherent liquidity of the floating debt tends to increase the amount of spending in the economy be-

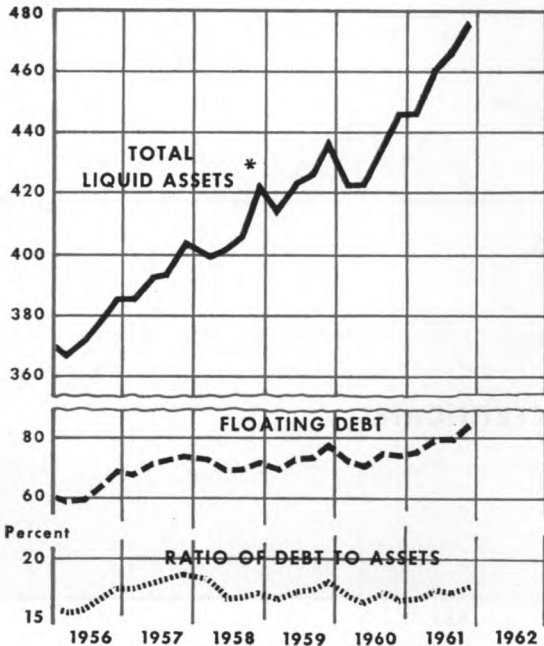
cause of (1) the wealth effect mentioned earlier and (2) the fact that such assets can be quickly and easily converted into cash. The floating debt, it is also argued, is said to have an expansionary effect in the economy when it activates the idle cash balances of its purchasers, when its purchase increases the velocity of the remaining money in circulation, or when the Federal Reserve System creates additional bank reserves in order to ensure that a new issue of short-term Government issues will be sold successfully. Finally, many analysts carry the argument further and point out that substantial bank ownership of floating debt tends to insulate the banks from Federal Reserve attempts to restrict the supply of credit in the nation, if such a course of monetary policy were deemed desirable. (Banks can easily liquidate or run off floating debt in order to raise cash. It is possible that banks may not be too concerned about capital losses that may result from the sale of such assets if loan demands are very heavy.) It would seem that the basic question regarding the floating debt in this context is that there exists a large volume of assets with many of the characteristics of money, but which cannot be adjusted over the course of the business cycle, as can the money supply.

This whole approach, based on the alleged potential inflationary bias of the floating debt, warrants close examination. First, it would seem that, in principle, debt management can alter the volume of the floating debt to cyclical swings in the economy. The problems are not really whether, but instead how and when to do it, remembering that there is at all times a definite need in the economy for a substantial amount of floating debt in order to satisfy basic liquidity requirements. In other words, the solution may involve the determination of an appropriate balance among diverse but related functions of this debt.

In this connection, it should be noted that the volume of floating debt has not been increasing faster in recent years than the volume of total liquid assets in the economy. The accompanying chart relates floating debt (in-

The floating debt has increased at about the same pace as total liquid assets in recent years.

Billions of dollars



* Includes money supply, time and savings deposits and shares, savings bonds, and floating debt.

cluding the portion held by banks) to total liquid assets between 1956 and 1961; the ratio of the two quantities has fluctuated within the narrow range of 15.5 percent to 18.5 percent.⁽⁵⁾ The increased volume of floating debt in recent years has evidently been absorbed by the growth of the economy and the accompanying needs for this form of liquidity. In other words, the economy as of the end of 1961 apparently had use of approximately \$84 billion in floating debt. The question of whether or not this amount was the *optimum* for the economy cannot be answered in the light of present economic knowledge.

An alternative approach to evaluating the floating debt is to relate the changes in the outstanding volume of floating debt to cy-

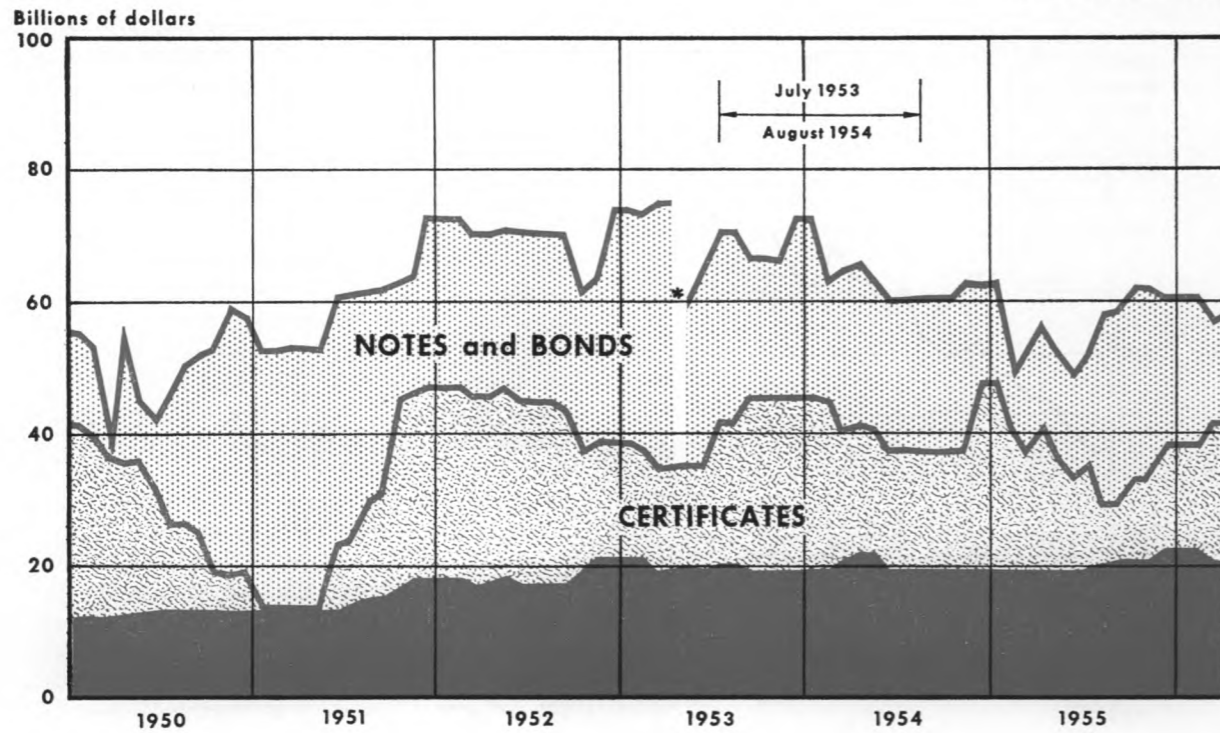
⁽⁵⁾ The same conclusion is found by using data on the publicly-held floating debt (excluding Federal government, Federal Reserve bank, commercial bank, and savings and loan association holdings). In this case, the ratio of floating debt to total liquid assets ranged between 8.4 percent and 11.7 percent in the years from 1953 through 1961.

lical changes in business activity. We begin with the premise that it is prudent financial policy to increase the liquidity of the economy in times of recession in order to help create an expansionary environment through additional spending and an increase in the velocity and supply of money. From this it follows that the volume of the floating debt might well be increased in business downturns. Conversely, it would seem suitable to reduce the outstanding volume of such debt during inflationary periods. In an accompanying chart, the floating debt is plotted on a monthly basis since 1949, with the indicated areas representing periods of business downturn. The inflationary period chosen to be studied is that of 1956-57, when both wholesale and consumer prices increased substantially.

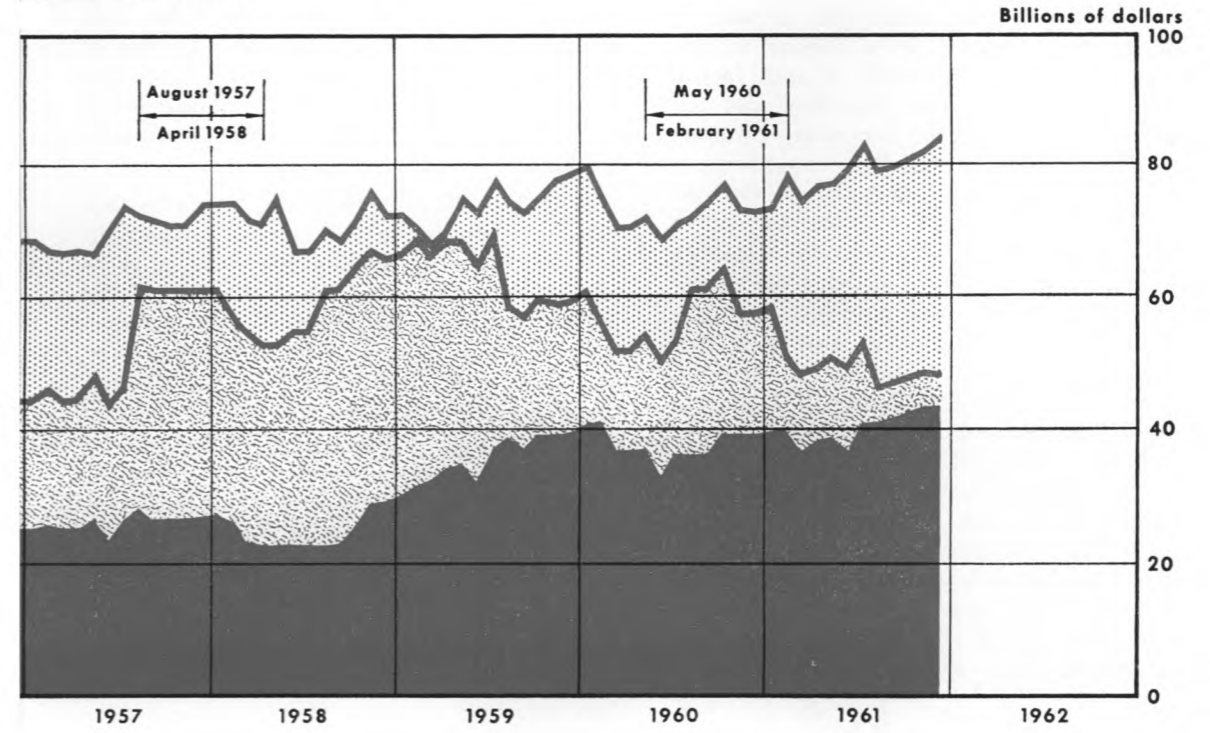
The record shows that during the last three business downturns the net change in the amount of the floating debt varied substantially. In the 1953-4 period, the floating debt actually declined by \$10.5 billion; in 1957-58, the volume of such debt declined about \$1 billion; and in 1960-61, the net change was an *increase* of \$5.7 billion. In other words, only in the most recent recession did the floating debt show a pronounced counter-cyclical bent. A similar conclusion can be found using a recovery period of ten months following the trough of a recession as a basis for comparison. In the recovery period of 1954-5, the floating debt declined another \$10.8 billion, on balance; in 1958-59, such debt slipped by \$0.5 billion; and in the last ten months of 1961, the floating debt rose by \$5.9 billion.

The foregoing record of the floating debt during recession and early-recovery periods cannot be explained merely by saying that such debt declined or was virtually unchanged as a counter to an excessive increase in other types of liquid assets in the economy. Total liquid assets, less floating debt, held by the public registered a net increase of \$24 billion in both 1953-55 and 1957-59 (periods of business downturn plus ten months of recovery) but a sharply larger rise of \$40.6 billion in 1960-61. The outstanding amounts of many types of liquidity instruments thus seem to

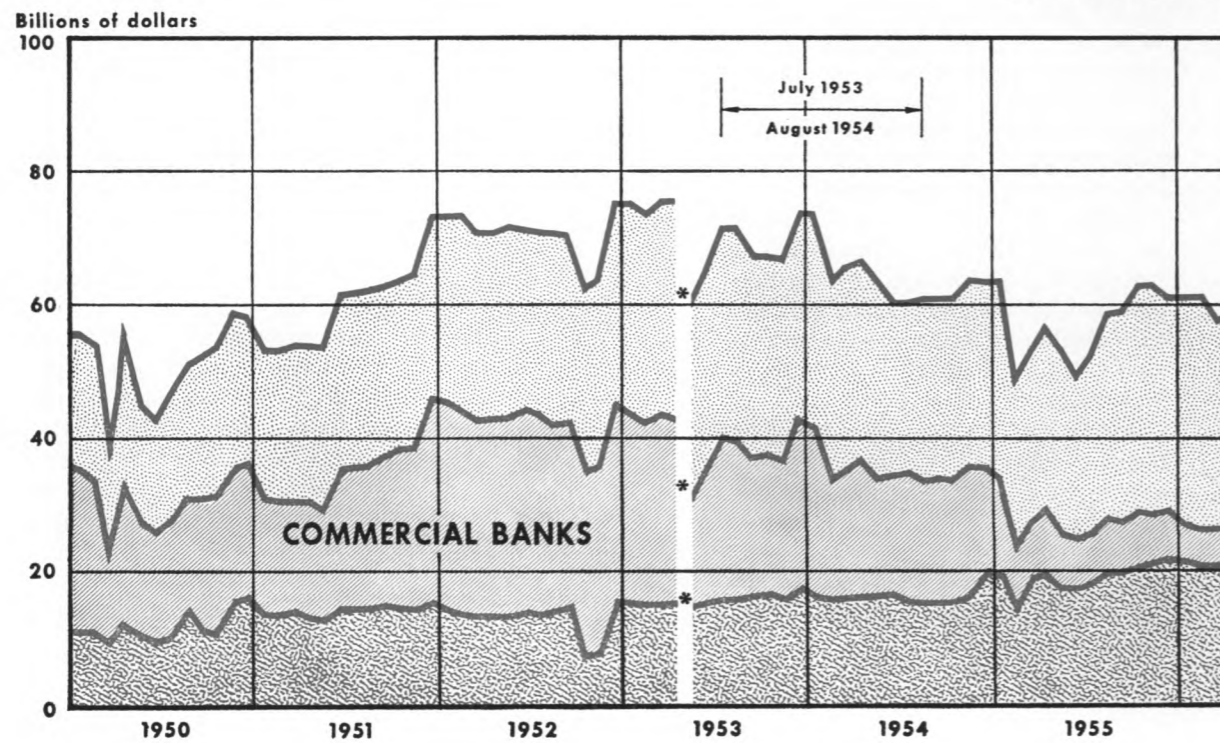
FLOATING DEBT, BY ISSUE



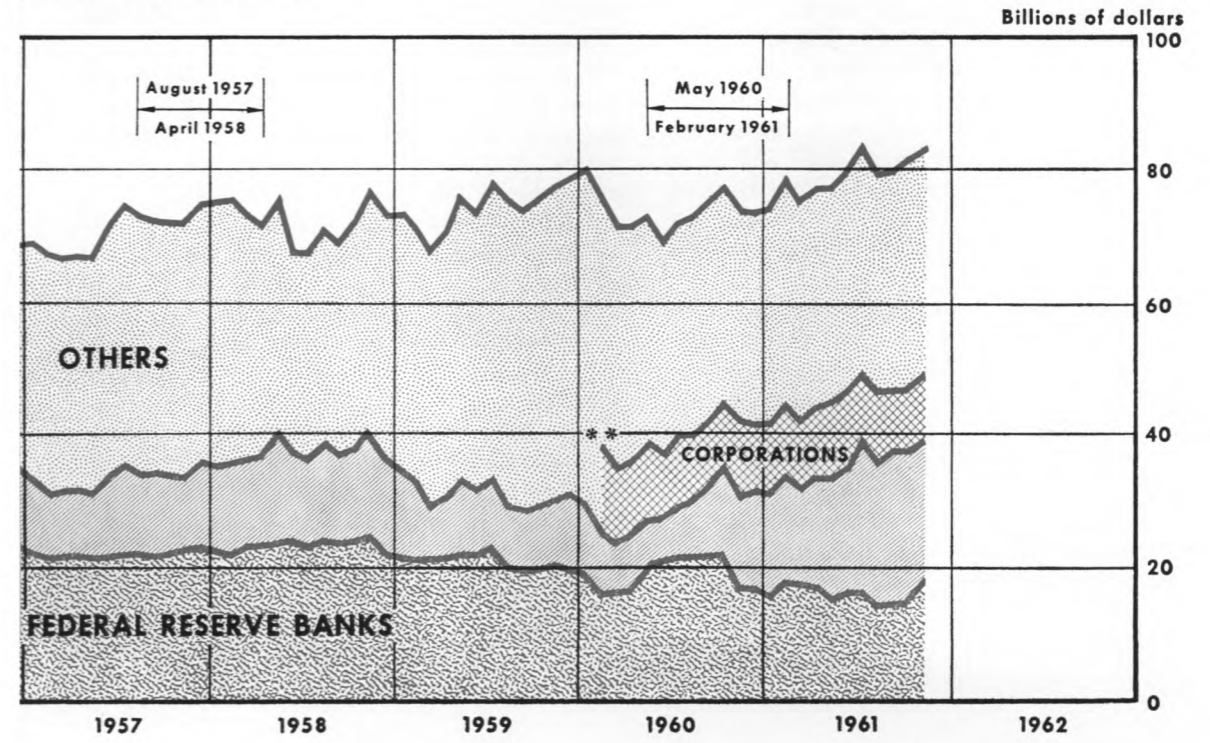
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FLOATING DEBT, BY HOLDER



* New Series



** Earlier data not available

have moved in concert in the past decade.

In business declines, if a decline in the floating debt were the result of cash retirements of such debt, both liquidity and the money supply would be increased counter-cyclically. To have the greatest expansionary effect, the cash payments would have to come from the Treasury's cash balance. Any other method of raising the cash — new Treasury borrowing through short- or long-term securities, for example — would offset the injection of cash into the economy. But it has not always happened this way. For example, between July 1953 and June 1955, nearly \$13 billion in floating debt was repaid in cash but three-quarters of this debt was rolled over, or refinanced. Between August 1957 and February 1959, cash retirements amounted to \$5 billion, but much more than this was absorbed in new cash borrowing. In 1960 and 1961, cash retirements were very large (\$25 billion), but all of the maturing debt was either rolled over or refinanced within a short time of the due date. In all of these cases, the net impact of retiring floating debt was at best minimal in terms of expansionary effects.

An examination of the floating debt in a period of inflation results in similar findings. In 1956-57, the wholesale price index rose $6\frac{1}{2}$ percent and the consumer price index rose 6 percent. Within the same period, the floating debt increased by \$13.7 billion, or $22\frac{1}{2}$ percent. The last five months of 1957 fell in a recession (as defined by the National Bureau of Economic Research) but the increase in the floating debt during these months was less than one percent.

This leads to the conclusion that, until the most recent business downturn, the floating debt had not been used as a counter-cyclical tool in the past decade. Some of the relative lack of use was no doubt due to the Treasury's burdensome task of handling the ever-present volume of maturing debt, both long- and short-term, while at the same time providing funds for expanding Government programs and operations. With this situation, it

frequently has been difficult to issue new securities in just the right proportions of various maturity lengths. Instead, there has been a tendency to sell those Treasury issues which gained the quickest market acceptance in the largest dollar amounts.

With the foregoing in mind, it can be seen that any solution to the cyclical adjustment of the volume of the floating debt must be undertaken with the cooperation of fiscal policy, monetary policy, and debt management. Economic logic seems to dictate that, in a period of decline in business activity, the Federal budget should be in deficit; that this deficit should be financed by an increase in the outstanding volume of short-term Government securities; and that monetary policy should be conducted so as to not absorb other liquidity (such as demand and time deposits) from the economy. Conversely, during inflationary periods, if the Federal budget is in surplus, the nation's debt managers may use the "breathing space" to shift short-term debt into longer issues. The resulting decline in the floating debt might make easier the Federal Reserve System's task of controlling the supply of money and credit, in that bank reserves would not have to be adjusted in order to offset the liquidity of the floating debt.

Coordination within financial public policy is essential when it is realized that the floating debt has a financial impact at different points of time and on different sides of the ownership "fence". The advantages of coordination were well revealed during the 1960-61 recession. During that period, the Federal budget posted a deficit, the Federal Reserve System supplied large amounts of reserves to the banking system, and the Treasury refinanced a large amount of debt in short-term issues that appealed to the banks. This coordination was perhaps an important factor in both the shallowness of the recession and the relatively early recovery. In short, the floating debt seems to have performed as an important and effective counter-cyclical weapon from May 1960 through 1961.

U. S. Agricultural Trade And The Common Market

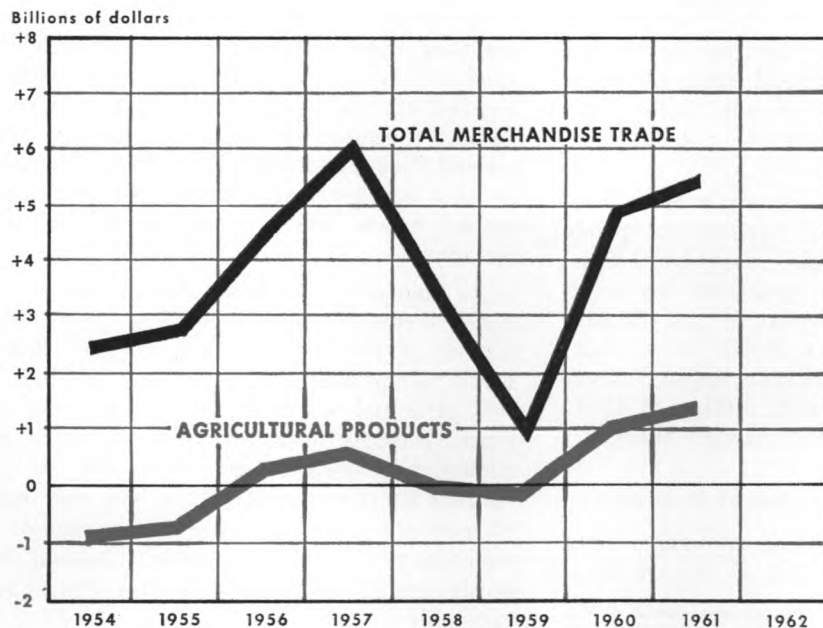
Editor's Note: This article discusses the general nature of U. S. agricultural trade with reference to the composition and destinations of exports and to the composition and sources of imports. It also considers some of the implications of the Common Market regarding U. S. agricultural trade.

THE U. S. is both the world's largest importer and largest exporter of agricultural products. In the way of historical perspective, it may be noted that over the past 30 years, the total value of agricultural imports has exceeded by about one-fifth the value of farm products exported. However,

during the past two years the value of farm products exported from this country has been substantially in excess of the value of agricultural imports. As a result, the trade surplus in agricultural products has made a significant contribution to the nation's total merchandise trade surplus. (See the accompanying chart.)

Due to the magnitude of agricultural exports under government programs, however, the amount of dollars received for agricultural exports has fallen short of the dollars paid out for agricultural products imported into this country. Thus, the agricultural trade

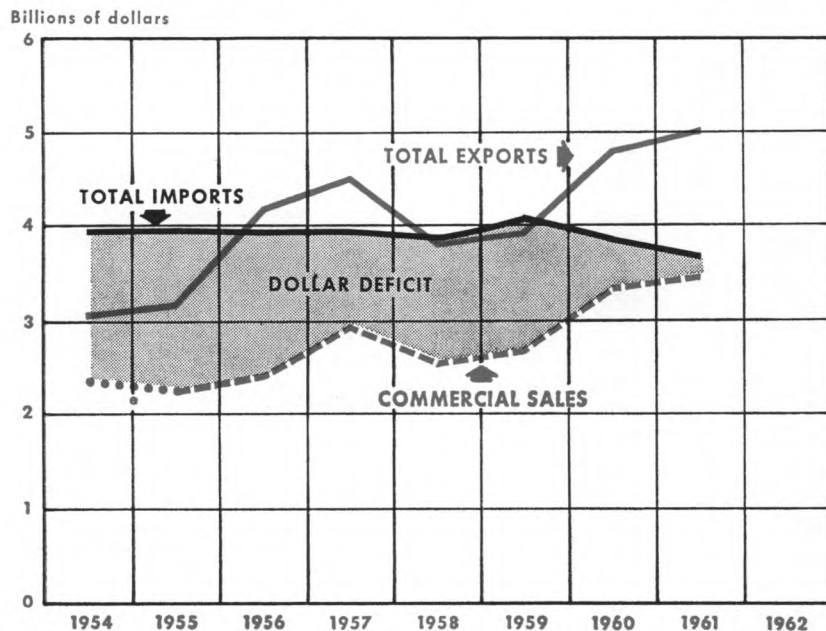
BALANCES OF TRADE



Agricultural trade surpluses accounted for about one-fourth of the U. S. merchandise trade surpluses during the past two years.

Source of data: U. S. Department of Agriculture and U. S. Department of Commerce.

AGRICULTURAL TRADE AND THE BALANCE OF PAYMENTS



Despite the agricultural trade surpluses of the past two years, foreign trade in agricultural products has actually contributed to the deficit in the U.S. balance of payments. However, larger commercial sales abroad along with a decline in the value of agricultural imports have reduced the dollar deficit in agricultural trade since 1959.

NOTE: Commercial sales for the calendar years 1954 and 1955 estimated by the Federal Reserve Bank of Cleveland. Calendar year figures not available prior to 1956.

Source of data: U. S. Department of Agriculture.

surplus has not been carried over into the balance of payments. Instead, trade in agricultural products has been one factor contributing to the deficit in the U. S. balance of payments.

It is noteworthy that in recent years "commercial sales" abroad of agricultural products have been on the rise along with shipments under government programs, while the value of agricultural imports has drifted downward.⁽¹⁾ The dollar deficit in agricultural trade was thus sharply reduced from \$1.4 billion in 1959 to \$220 million in 1961. (See shaded area in accompanying chart.)

Foreign Trade in Agricultural Products

Approximately one-half of the agricultural products imported into the U. S. are com-

(1) "Commercial sales" refer to transactions completed with and without government export subsidies. Inasmuch as the value of government export subsidies is excluded from total commercial sales figures, either type of sale has the same effect on the U. S. balance of payments. For a discussion of the role of government in agricultural exports, see *Business Conditions*, Federal Reserve Bank of Chicago, January 1962.

modities which either are not commercially produced in this country or are not similar to products which are commercially produced. Imported commodities of this nature are often termed "complementary" products. Included in this category are items such as coffee, cocoa, crude rubber, carpet wools, and bananas.

As shown in the first table, coffee is, in dollar terms, by far the leading agricultural import of the U. S.⁽²⁾ Consequently Brazil, which is the chief source of that product, is the principal supplier of agricultural imports. Imports of coffee from Colombia are sufficient to make that nation one of the leading suppliers to the U. S. The only complementary fruit or vegetable product of significance is bananas, which account for approximately one-third of all fruit and vegetable imports.

(2) These and subsequent data are from the U. S. Department of Agriculture.

Leading Commodities in U. S. Agricultural Trade
Annual Averages, 1958-60
(in millions)

Imports	Exports
Coffee	Wheat and Flour
Sugar	Cotton
Meat Products	Feed grains
Rubber	Fruits and Vegetables
Fruits and Vegetables	Tobacco
Wool	Soybeans
\$1,091	\$789
508	694
338	509
321	385
229	360
192	272

The total volume of complementary commodities imported into this country in recent years is approximately the same as in the late 1920's, because larger imports of coffee, tea, cocoa, and bananas have been offset by reduced imports of silk, rubber, and carpet wools.

Among agricultural imports which either are competitive with or supplement commercial production in this country, sugar is in the lead position, although more than one-half of the total U. S. sugar supply is produced within the U. S. and territories. Cuba had been the leading foreign supplier of sugar until the break in relations with that nation. Since that time, domestic production has been expanded along with imports from Mexico, the Dominican Republic, Peru, and the Philippines, which is now the number one foreign source of sugar for the U. S.

Boneless beef and canned pork are the chief items among the meat products imported into this country. These products, as well as live cattle imports, help make the neighboring countries of Canada and Mexico leading sources of U. S. agricultural imports. Principal supplementary fruit and vegetable imports include tomatoes, olives, and pine-

apple.

On the export side of the agricultural trade ledger, wheat and flour are the leaders. (See table above.) However, only 30 percent of the \$789 million (annual average) of wheat exports from 1958 through 1960 represented commercial sales, i.e., exports for dollars. Shipments of wheat account for more than one-half of exports under government programs. Thus, India, which is the leading recipient of our foreign-aid shipments, is the major importer of U. S. wheat.

Commercial sales of cotton from 1958 through 1960 averaged \$465 million annually, or 67 percent of total cotton exports in that period, and were larger than any other commodity. Japan is the chief cotton market for the U. S. The Common Market countries and the United Kingdom, taken together, are the principal outlets for feed grains, purchasing 62 percent of the total feed-grain exports during the 1958-60 period.

Many different items enter into fruit and vegetable exports. Oranges and orange juice are the largest single contributor, with peaches, prunes, navy beans, potatoes, and asparagus the other leading commodities in this category. Nearly all of the fruit and

Leading Countries in U. S. Agricultural Trade
Annual Averages, 1958-60
(in millions)

Origin of Imports	Destination of Exports
Brazil	United Kingdom
Cuba	Japan
Colombia	Canada
Philippines	West Germany
Mexico	Netherlands
Canada	India
\$515	\$448
386	393
277	387
234	315
215	281
210	270

vegetable exports represent commercial transactions.

Foreign sales of tobacco have been on the rise in recent years, reflecting the increase in cigarette consumption abroad. The United Kingdom is by far the leading tobacco customer of the U. S. Exports of soybeans have exhibited tremendous growth in recent years to become a leading export commodity. During 1961, for example, soybean exports totaled 133 million bushels, compared with 27 million bushels ten years earlier. Japan is the leading buyer of soybeans from the U. S., with other important outlets being Canada, the Netherlands, and West Germany.

Importance of Common Market

As the data in the table below show, the Common Market countries as well as the United Kingdom represent extremely important outlets for U. S. farm products.⁽³⁾ Taken together, these countries accounted for one-third of all U. S. exports of agricultural products during 1960 (the latest year for which complete data are available). Of even greater importance, however, is the fact that nearly all of the exports to these nations were commercial transactions. The significance of this situation is revealed in the fact that 45 percent of all the dollars received from agricultural exports in 1960 came from these countries.

The importance of these nations as a dollar market for U. S. farm products may be seen

(3) The Common Market is the popular name for the European Economic Community whose present membership includes Belgium, France, Italy, Luxembourg, West Germany, and the Netherlands. The United Kingdom has applied for membership in the Common Market.

more clearly in the data which follow. The various countries in the Common Market

Leading Countries in Commercial Purchases of U. S. Farm Products 1960

	(in millions)
United Kingdom	\$475
Japan	460
Canada	435
West Germany	335
Netherlands	317
Italy	140
Belgium and Luxembourg	135
France	120

ranked no lower than eighth in a list of commercial purchasers of U. S. agricultural products in 1960. In contrast, only a negligible portion of U. S. agricultural imports originate in those countries. Consequently, these nations were net buyers of nearly \$1.3 billion of U. S. agricultural products in 1960, which represented an important contribution to the U. S. balance of payments.

With the importance of the Common Market countries in U. S. agricultural trade illustrated by the preceding discussion, it would seem that the common agricultural policy to be adopted by the Common Market is extremely significant with respect to future sales of U. S. farm products in that area. The application by the United Kingdom for membership in the Common Market serves to enhance this significance. For example, any policy that limits access to those markets might tend to widen the dollar deficit in U. S. agricultural trade and to have a corresponding adverse effect on the U. S. balance of payments.

U. S. Agricultural Trade, 1960 (in millions)

	All Areas	Common Market	United Kingdom
Total U. S. Agricultural Exports	\$4,832	\$1,099	\$510
Commercial Sales	3,353	1,047	475
Total U. S. Agricultural Imports	3,825	220	25
Dollar Balance	- 472	+ 827	+ 450

In this connection, let us take a closer look at the present status of the Common Market and some of the implications of recent policy decisions.

Present Status of Common Market

In January 1962, the Common Market countries reached agreement on general farm policy as a further step toward economic unification. The agreed-upon common agricultural policy has the following basic provisions:

- (1) The gradual elimination of all tariffs among member countries between July 1, 1962 and January 1, 1970.
- (2) The eventual establishment of identical levels of price supports in each of the member countries.
- (3) Variable import levies on farm products imported from outside sources equal to the difference between the world price and the Common Market support price.

The question that remains unresolved at this time is at what level farm products are to be supported. If the level of price supports adopted is such that import levies offset any competitive advantage of outside suppliers, agricultural production within the community would be sufficiently stimulated eventually to reduce the need for agricultural imports.

Since the Common Market agreement on

agricultural policy, major trade agreements have been completed between the Common Market and the U. S. Principal commodities included in these agreements were cotton, soybeans, tobacco, fruits, and vegetables. As can be seen from the table below, these are among the leading commodities exported to the Common Market as well as to the United Kingdom, and constitute a significant portion of total U. S. exports of these commodities. Presumably, exports of these commodities will not be greatly affected in the future and should continue to expand in proportion to the increase in the standards of living in those countries.

The commodities for which agreements have been reached, however, are those which are not produced (or which are produced to a limited extent) in the Common Market countries due to climatic and other natural limitations. Thus, while the recent trade agreements have been of considerable importance in relation to total exports to the area, they do not include any of the products which are substantially competitive with producers in Common Market countries.

Grains are of prime importance among the commodities for which trade agreements between the United States and the Common Market have not been reached. As shown in the previous table, 39 percent of U. S. feed-grain exports went to Common Market countries from 1958 through 1960. The mainte-

Leading U. S. Agricultural Commodities Exported to the Common Market and the United Kingdom Annual Averages, 1958-60

Common Market			United Kingdom		
	in millions	% of Total U.S. Exports		in millions	% of Total U.S. Exports
Cotton	\$208	30%	Tobacco	\$127	35%
Feed Grains	199	39	Feed Grains	115	23
Soybeans	95	35	Cotton	57	8
Tobacco	87	24	Wheat and Flour	37	5
Wheat and Flour	62	8	Fruits and Vegetables	34	9
Fruits and Vegetables	62	16	Lard Tallow	28	18
Other	238	8	Other	50	2
Total	\$951	23%	Total	\$448	11%

nance of grain exports is of particular importance to the U. S. because of the huge surplus quantities on hand. The investment in wheat, corn, and sorghum grain accounted for three-fourths of the total Commodity Credit Corporation investment of \$7.9 billion, as of January 31, 1962. Poultry meats are among other commodities for which trade commitments have not been reached. Exports of poultry meat do not account for a significant portion of total exports to the Common Market, but they have increased phenomenally in recent years; more than \$22 million of fresh or frozen chicken was sold to West Germany and the Netherlands during the year ended June 30, 1961, as compared with \$5 million two years earlier.

At the present time, grain producers in the Common Market countries are protected from the effects of international competition through various governmental policies. The degree of protection afforded domestic producers in those countries is in excess of that afforded U. S. producers, as evidenced by levels of price supports. For example, wheat is supported in France (where grain supports are the lowest of the Common Market countries) at \$2.20 per bushel and in West Germany (where supports are the highest in the area) at \$3.00 per bushel. These figures compare with a support level of \$2.00 per bushel on wheat in the U. S.

Although the exact ultimate or future level of grain supports in the Common Market is as yet unknown, it has been agreed that member countries will establish supports within the present price range. Support levels will be adjusted progressively within this range until

the objective of a single Common Market price is reached no later than January 1, 1970. Under this plan, eventual support would be somewhere between the French and West German levels. It is debatable whether such a policy would, on the whole, result in a net increase in grain production incentives. It does not appear that such a policy would result in any net reduction in production incentives in those countries.

According to the U. S. Department of Agriculture, studies made by the Common Market in 1960 indicate that continuation of 1960 grain policies would result in the area being 99 percent self-sufficient in wheat production by 1965 and 82 percent self-sufficient in feed-grain production by that time. From 1956 through 1960, the area produced 89 percent and 75 percent, respectively, of its total supply of these commodities. Attainment of the higher level of self-sufficiency would (according to the study) reduce import requirements for feed grains by 10 to 15 percent and reduce wheat imports to limited amounts for blending purposes. This conclusion, however, does not apply to the United Kingdom, which will continue to be a heavy grain importer.

Thus far, developments in trade agreements between the U. S. and the Common Market have not resolved the questions concerning the future of U. S. grain exports to those countries. The grain provisions of the adopted common agricultural policy point generally to a continuation of present policies which can be characterized as aiming at self sufficiency for the Common Market as a whole.